Introduction

How do managers control organizations? When managers develop new organizational goals and strategies, how do they evaluate the organization's subsequent behavior and performance? How do they know whether plans are used and goals are achieved? These questions lie at the heart of management control. Managers need a way to assess whether top level decisions are incorporated into departmental activities and to determine whether strategies are influencing organizational performance (Christensen, Andrews, Bower, Hamermesh and Porter, 1982).

As recently as 10 years ago, organization and management scholars could not answer these questions. In the scholarly literature, control was studied as the amount of influence or participation employees had in organizational activities (Tannenbaum, 1968). Control theory of this period recognized control as an essential management function but consisted mostly of common sense principles such as 'Control should be kept simple' and 'Controls should measure only meaningful events' (Koontz, 1959; Sihler, 1971). These principles have some prescriptive value, but they do not provide a theoretical paradigm based on the organization's needs or contingencies.

In the last few years, concepts and models in the organizational
control literature have come a long way (Kerr and Slocum, 1981). Control issues differ according to hierarchical level (Anthony and Dearden, 1980; Daft, 1983). Top managers are concerned with institutional control, midlevel managers with managerial control, and lower level managers and supervisors with operational control. In addition, concepts such as market control, bureaucratic control, output control, and behavioral control provide new tools for understanding and modeling organizational control processes (Ouchi, 1979; Ouchi & Maguire, 1975). Yet another development is new research into organizational control from the fields of accounting and business policy. Organizational control represents a point of convergence between these fields and management theory.

This chapter reports exploratory research findings about one poorly understood aspect of organizational control: the nature and use of formal management control systems. Our goal was to define the scope and characteristics of formal control systems actually used by managers and to define the role of formal systems in the organizational control and strategy implementation process. Our research investigates how middle and upper-middle managers control major organizational departments in order to implement business strategy.

Research background

Organizational control includes the activities used to achieve desired organizational goals and outcomes. Control activities include planning, motivation of employees, and co-ordination across departments (Barrett and Fraser, 1977). More specifically, organizational control can be conceptualized as a three stage cycle: (a) planning a target or standard of performance, (b) monitoring or measuring activities designed to reach that target, and (c) implementing corrections if targets or standards are not being achieved (Dunbar, 1981; Giglioni and Bedeian, 1974; Lorange and Scott Morton, 1974; Ouchi, 1977; Todd, 1977). The idea that control is used to achieve organizational goals and outcomes, and that the control process consists of a three stage cycle, is shared across the fields of organization theory, accounting, and business policy. Beyond this general definition, however, the conceptual and research base from each discipline offers a distinct contribution to our understanding of management control.

Theoretical focus

Several threads in the [...] literature provide a basis for the research